

MINUTES OF THE TREASURY OVERSIGHT COMMITTEE ORANGE COUNTY, CALIFORNIA

September 29, 1999

A Regular Meeting of the Treasury Oversight Committee (TOC) was held on September 29, 1999 and called to order by Robert Fauteux, Chair, at 3:00 p.m.

PRESENT: **Committee Members:** Robert Fauteux, Chair
Jan Mittermeier
John Dean
David Sundstrom

Also present were:

John Moorlach, Treasurer-Tax Collector; Dick Hilde, Assistant Treasurer; Joanne Guerriero, Secretary; John Nelson, Department of Education; Carol Swe & Lily Chin, Internal Audit; John Abbott, County Counsel

1. Meeting Called to Order

Robert Fauteux called the meeting to order.

2. Welcome and self-introductions

Introductions were made.

3. Public Comments

None

Ms. Mittermeier arrived at 3:12 p.m.

4. Approval of Minutes

The Minutes of the November 4, 1998, March 24, 1999 and June 30, 1999 were reviewed. Mr. Fauteux stated the June 30 meeting was an informal, unofficial meeting. Therefore, the minutes will not be considered for approval. County Counsel ruled that David Sundstrom could act in Steve Lewis's place for the approval of the November 4 minutes. Mr. Fauteux then asked if there were any observations of the March 24 minutes. A correction in grammar on page 3, last paragraph was made.

Recommended Action: Mr. Fauteux asked for a motion to approve the minutes. Dr. Dean moved to approve the minutes of both the November 4, 1998 and the March 24, 1999 meetings. Seconded by Mr. Sundstrom. November 4, 1998 minutes Passed 3-0. March 24, 1999 minutes Passed 4-0.

5. Treasurer's Report

Mr. Moorlach began his report by advising on the continuing education front, he was able to attend the Certificate of Appreciation in Public Plan Policy conference in Chicago for four days in August. He also attended the California Association of County Treasurers-Tax Collectors for two and a-half-days at the Area Five meeting in Solvang and last week he attended the Orange County Employees Retirement System's Open Forum for a day and a half.

His senior staff is currently working on developing an RFP to acquire a treasury workstation which will fully automate our investment and accounting process.

On the legislative front, Mr. Moorlach reported that since this Committee last met in June the Governor has signed AB 343, which was basically our bill. It now allows us to eliminate the commercial paper weighted average maturity restriction and increases our limitations from 30% to 40%. It also establishes a diversification limit of 10%, which the Code doesn't have by issuer, and it cleared up the definition of "borrowing," an issue we had with County Counsel. SB866 required that any borrowings would have to be approved by the Board of Supervisors. In a published memorandum the Bill's sponsor, Senator Quentin Kopp stated that bank overdrafts were not considered borrowings. County Counsel said that was not good enough. Effective January 1, 2000 the Code will state that bank and daylight overdrafts are no longer considered borrowings that need to be approved by the Board of Supervisors. Along with AB 343, we were able to get five issues approved and into law so far this session. In fact, AB 343 also received thumbs up from State Treasurer Phil Angelides. Prior to Governor Davis signing the bill, he gave Mr. Angelides a call and asked for a quick synopsis, so we received support there as well.

Section 27063 requires the Treasurer to report all the cash receipts and disbursements. SB 275 expands the code to allow the Auditor-Controller to also issue that report. We currently receive it from the Auditor-Controller. We then forward it to the Clerk of the Board and the Board of Supervisors. It's in an Omnibus Bill sitting on the Governor's desk and we anticipate his signature.

We have also been trying to get a better definition in the Code of what a Medium Term Note is. We have already, at our level, made an interpretation of what it is and that interpretation is in another Omnibus Bill, AB 1679. That bill is also on the Governor's desk and we anticipate that it will be signed. That will give us seven pieces of investment related legislation that have been approved during 1999.

Our agenda for the upcoming year 2000 is also ambitious. We will be utilizing the approach that AB 343 taught us by establishing a separate code provision. We want to establish an election where we can run our money market investment pool like a money market mutual fund and not have some of the unique restrictions in investment types in the current Code. We are taking that proposal to the CACTTC next month.

In 2001 we are hoping to take the same philosophy of allowing up to 100% in any type of investment category and have that modified in Section 53601. We will then eliminate Section

53635, because it is a duplication of Section 53601, and then change the language to refer Section 53635 to Section 53601 for the investments that are available. We have a preliminary green light from the Association, but because it is a major undertaking, we are going to take a year to work with an Ad Hoc Committee on this matter.

In closing, Mr. Moorlach stated the June Report was a great product and the July and August reports are available if there are any questions. He is meeting with Gary Burton and David Sundstrom tomorrow to discuss our "white paper" draft. We will then see where we want to go as a result of that meeting.

Mr. Fauteux asked if there were any observations from the members. Dr. Dean commented that he was glad to hear Mr. Moorlach was doing so well on legislative issues. Mr. Moorlach added he is very pleased with the results because some of the proposed changes are still in committee and being worked on.

Mr. Fauteux commented Mr. Moorlach had some good press last week with the County's famous "A rating" again, though he did not see Mr. Moorlach's name mentioned in the local newspaper he reads. Mr. Moorlach stated he was briefly quoted in the Bond Buyer. The "A" rating is a great accomplishment. Mr. Fauteux added with steady progress, it is getting us back to where we should be.

6. Chairman's Report

Mr. Fauteux advised that we are coming to the end of the year which is the time we get ready for the submission of the Investment Policy Statement (IPS) to the Board. Our Annual Report of the Committee will also be submitted to the Board. He will prepare a draft of the report for the next meeting and will send it to the members to editorialize. Last year the Board submission was on December 15. This year we will also have the revised Bylaws to submit. He asked if there were any comments. Mr. Hilde stated the Bylaws and the Committee's Report will probably be on the same AIT together with the recommendations of the IPS changes.

7. Elect the Chair and Vice Chair

Mr. Fauteux reported item seven is out of timing because the Bylaws state the elections take place the first meeting of the Committee in the calendar year (page 3, Rule 15 of the Bylaws). This item will be carried over to the first of next year unless anybody has any objection and wants to change the Bylaws. Mr. Moorlach provided background as to why this item is on today's agenda. The Committee could not vote for the chair and vice chair at the first meeting of this year because it was not agendized. It was agendized for the next meeting in which there was no quorum so this is a carry-over item. Mr. Fauteux, stated he has been sitting here on an ad hoc basis. He stands corrected.

Recommended Action: Elect the Chair and Vice Chair for 1999.

Dr. Dean nominated Mr. Fauteux as Chair. Seconded by Ms. Mittermeier. Passed 3-0. Mr. Fauteux abstained.

Mr. Fauteux nominated Dr. Dean as Vice Chair. Seconded by Ms. Mittermeier. Passed 3-0. Dr. Dean abstained.

8. Bylaws

Item A. Add appendix stating TOC members have to approve the Bylaws.

Mr. Fauteux stated he believes this recommendation came from one of Internal Audits' observations about the Bylaws and asked Ms. Swe if that is correct. Ms. Swe responded she believed that Item "C" did. The Treasury members are in compliance with the requirements, but there is nothing that states they have to approve the Bylaws. Mr. Fauteux stated he looked at the minutes of one of the prior meetings and there was a discussion on adding an appendix. He thinks it arose in the context of what the Auditors are doing. Mr. Moorlach explained that he believed it arose because of the provision that members should be fully aware if they serve on this Committee they will have to wait three years before they can obtain a position in a financial organization. The law has been changed to one year. He doesn't know if that is true for Rules 11-13. Mr. Fauteux responded it would indirectly and handed out proposed language for a new Rule (#33) suggesting that it be added to the Bylaws. The language reads, "At the last calendar year meeting of the Committee, the Committee will review, incorporate any changes, re-approve the Bylaws and Rules of Procedure and submit them, if changes have been made, to the Board of Supervisors for their approval." He explained this already takes place. If we add this Rule to the Bylaws, it would make it clear. It could be placed under Miscellaneous Provisions. It will call attention to future boards that at the end of the year they have to review the Bylaws to make sure that they are current with any changes made.

Mr. Abbott asked, because he had recently returned in representing the Treasurer's office, are the only actions being taken today specified in A, B, C and D. If that is true, he advised the Committee that Rule 33 is not agendized. Mr. Moorlach responded that he believes it falls under Item A. Mr. Fauteux concurred. Mr. Abbott then asked if the Committee's choice is to adopt Rule 33 instead of adopting an appendix. Mr. Fauteux concurred and advised they will defer Rule 33 to Mr. Abbott for his review. It has to be brought back to the next meeting for final approval of the Bylaw changes before it goes to the Board. Mr. Fauteux asked Ms. Mittermeier if she thought it was redundant. She responded it is good to be cautious. Dr. Dean stated he did not see anything in the Bylaws with reference to them being reviewed or reconsidered. Mr. Fauteux added he checked the Bylaws thoroughly to make sure everything was exactly the same because they were retyped. Mr. Abbot asked if the Committee wants to limit their opportunity to make changes to the Bylaws to only today's meeting, or leave open the opportunity to make changes during the calendar year. Mr. Fauteux responded in case of an emergency we may want to make changes, but they would have to go to the Board of Supervisors at that time. Mr. Moorlach asked Mr. Abbott if he is proposing that Rule 33 should state, "At any time during the year, but at least during the last calendar year meeting . . . " Mr. Abbott responded that language could be used. Mr. Fauteux suggested it could read, "No later than the last calendar year meeting . . . " Mr. Abbott said that also would be

appropriate. Mr. Fauteux stated at this point he would like to refer Rule 33 to Mr. Abbott for his review and to edit. A copy of the revised language of the Rules will be sent to the members prior to the next meeting for final approval of the changes before the Bylaws go to the Board.

Recommended Action: Mr. Fauteux made a motion that the Committee refer proposed Rule 33 to County Counsel for appropriate language and then resubmit to the Committee before the December meeting. All in favor. Passed 4-0.

Item B. Add another public member & Item D. AB 323, Change rule 13 from three years to one year.

Mr. Fauteux stated adding another public member is incorporated in the changes that have been made to the draft Bylaws previously sent to the members prior to today's meeting. He then pointed out the changes page-by-page. Page one, Rule 6, changed "four" members to "five" members. Subsections (b) strike "Chief," (d) changed "A member" to "Two members." Page 2, Rule 8, subsection (d) changed "four" to "three." Rule 13 changed "three years" to "one year." Mr. Moorlach strongly affirmed that adding a fifth member will resolve the problem with the quorum because we have held a couple of meetings where County Counsel has ruled that two is not a quorum. Mr. Fauteux asked if there were any other comments. There were none.

Recommended Action: Mr. Fauteux asked for a motion to accept the changes and additions as submitted to the Bylaws. Moved by Ms. Mittermeier. Seconded by Dr. Dean. Passed 4-0.

Item C. Add a rule stating TOC members are in compliance with the requirements in Rules 11 through 13

Mr. Fauteux stated the next item is about the annual indication of awareness of the terms and conditions of the Bylaws, as outlined in his letter of April 5 to the TOC members. He stated this is the issue we discussed at the beginning of the year to propose two alternatives of how the members should be made aware or indicate their awareness of the Bylaws. The first proposed language states when we file Form 700, we will sign a statement that we are aware of the Bylaws, etc. It won't be filed with Form 700 but it will be placed in the County Treasurer's files as a record and be available to the Auditors if they ask if we are aware of the terms and conditions.

The second alternative is just a one time initial declaration. When a member joins the Committee, he will sign an agreement stating that he is aware of the terms and conditions of the Bylaws and Rules and will remain in compliance during his membership. Mr. Fauteux, addressing John Abbott, stated that he thought Ann Fletcher went through this with a fine tooth comb. This wording is hers but we will refer it to Mr. Abbott for his review. Mr. Abbott suggested adding where the statement will be filed. The 700 forms will be filed with the Clerk of the Board of Supervisors. It will be helpful for future members if it states where the certification will be filed. Mr. Fauteux thought that ipso facto we are operating under Mr. Moorlach's administration, and they would automatically be kept in his files. Mr. Abbott stated that is not necessarily correct as the Committee operates under both the Treasurer and the Board of Supervisors' administration. Every member is nominated by the Treasurer and

approved by the Board of Supervisors. It should be clarified to read, "This declaration shall be submitted in writing to the Treasurer." Mr. Fauteux suggested adding "... submit a signed statement *to the Treasurer* ..." and asked if that would be appropriate. Mr. Abbott concurred by adding "to the Treasurer" makes it clear in the future where to send it. The Clerk of the Board won't be confused. Mr. Fauteux responded we could add that language or ask County Counsel to draft a document for us. Mr. Abbott advised he will draft the document. Ms. Mittermeier concurred that Mr. Abbott should draft the language and state it will be signed under penalty of perjury. She also suggested sending out a reminder annually with an attached form for members to fill out. It should be made as an attachment that when a new member joins the Committee, it will be submitted at the original time of Board approval. After that it will be taken care of annually, if necessary. Mr. Moorlach stated if it is an attachment to the Bylaws, when someone becomes a new member they will receive the Bylaws and the statement.

Mr. Fauteux asked the Committee which of the proposed language of Rule 32 are they in favor of. Ms. Mittermeier stated there are two different issues: (1) Members attest that they have not made any contributions and (2) Members are aware of the rules. If the certification states that you are aware of Rules 11 through 13, it could be signed when a new member first accepts appointment to the Committee. If the purpose is to have members certify that they haven't made any contributions, then it needs to be signed annually. Dr. Nelson stated an annual basis signing would be the best choice because if changes take place, such as in our discussions today, even the existing members wouldn't necessarily know something that might develop in the Treasurer's office. There will be changes as time goes on. Mr. Fauteux's observation is that if members come to the meetings, we discuss this stuff ad nauseam, so they would be aware of any changes. Agreeing with Dr. Nelson, he thinks an annual basis signing would be the best choice. Accordingly, the first option of Rule 32 would be appropriate as stated by adding the language, "... Committee member shall submit a signed statement to the Treasurer attesting that the member is aware of and in full compliance ..." Mr. Fauteux stated if there is no further discussion or observation, he will ask for a preference from each member. Dr. Dean - First Rule. Ms. Mittermeier - First Rule. Mr. Sundstrom - First Rule. Mr. Fauteux also agrees with the first rule.

Recommended Action: Mr. Fauteux asked for a motion to use the first wording of Rule 32 and amend it to read in the fourth line "... Committee member shall submit a signed statement *to the Treasurer* ..." with the provision that the Certificate of Compliance will be prepared by County Counsel. Moved by Dr. Dean, 2nd by Mr. Sundstrom. Passed 4-0.

Mr. Moorlach stated an updated set of Bylaws will be provided for the next meeting with Counsel's screened version of Rules 32 & 33. Mr. Abbott advised Chairman Fauteux he has rewritten Rule 33 during the meeting and asked instead of waiting until the next meeting if he would like him to read what he has written. If it is acceptable, it won't have to be agendized for the next meeting. "At any meeting of the Committee, but not less frequent than the last meeting of each calendar year, the Committee shall review, discuss and approve any changes or amendments to the Bylaws or Rules of Procedure. Should any change or amendment be approved by the Committee, such change or amendment shall be presented to the County Board of Supervisors for approval." Mr. Fauteux asked if there were any Committee

observations on Mr. Abbott's statement. He finds it acceptable. Dr. Dean asked if there was any time line when it needs to be submitted to the Board of Supervisors. Mr. Abbott responded there is none and asked if the Committee wants to specify a time line. It is not effective until the Board approves it, as in the current Bylaws. The time line for the Board is difficult to specify. Dr. Dean stated he was thinking more about the end of the fiscal year. Mr. Abbott said that would be okay. Dr. Dean further stated he wants to make sure we can approve it and then not have it sit around for a year and a half before we send it to the Board of Supervisors for whatever reasons. Mr. Abbott said it will be done as soon as practicable. Mr. Fauteux stated this Committee operates on the calendar year, not the County fiscal year.

9. Internal Audit Update

Mr. Moorlach advised we have completed the audit for the year end December 31, 1997. We are still waiting for the year end of December 31, 1998. It is his understanding that it should be completed soon. Hopefully it should be ready for a presentation for the December 1 TOC meeting. Mr. Fauteux stated he will make a note of that and when he makes his report to the Board, he will advise them that we have a clean report from the Auditor's findings.

A question arose in the proposal that there was a set number of hours for costs that would be charged for the audit. He asked if anything has changed regarding that issue, or if that charge is still within the parameters of what that agreement so indicates. Ms. Swe observed that this question will have to be addressed to Internal Audit's current director, Peter Hughes. She believes it was originally estimated that it would take 300 hours for the calendar year 1998-99 audit. Mr. Fauteux also asked if the audit for 1998 is going to come in within the 300 hours. Ms. Swe stated Internal Audit has actually well exceeded 300 hours. She believes, based on discussions with Mr. Hughes, they will probably not be charging the additional amount to the Treasurer. They have had staff changes and have incurred additional hours because of the changeover. Mr. Fauteux asked if there were any other further comments. There were none.

10. IPS Update Status

Mr. Moorlach stated since Mr. Fauteux attends the Treasurer's Advisory Committee meetings, he knows we have been debating the concept of taking funds out a little longer to benefit from the yield curve. To use Mr. Fauteux's term, we have debated that "ad nauseam" for four years now. He together with Mr. Hilde, Ms. Jacobson and Mr. Eberhardt have been working to make a strong unified position to get something approved at the next TAC meeting. We hope to have some agreement of that body, and we will present that to the TOC on December 1. We are getting closer to something that will satisfy our needs, the school districts' needs, certain individual departments who have long-term liabilities and will meet our manpower management concerns as well. Mr. Fauteux asked if there were any questions from the Committee. There were none.

Mr. Moorlach stated we will get our package together for the Board within a couple of weeks after the IPS has been completed. It will contain all the changes that were passed by the legislation.

Mr. Fauteux stated one thing he neglected to bring up in his Chairman's Report is the matter of adding another public member. He asked Mr. Moorlach if it is at his discretion or selection to find suitable candidates or how he plans to carry out the process. Mr. Moorlach responded he hasn't spent a lot of time considering it. One individual that does come to mind is Charles Schroeder, professor of finance at Cal State Fullerton and former chief investment officer for Loral in Newport Beach. He is looking for someone independent who will bring a lot to the Committee, has a good strong industry background and doesn't have the risk factor of one year, maybe someone retired. He will discuss it further with Mr. Fauteux at a later date. Mr. Fauteux explained the other reason he brought up the subject is that this will be his fifth year as chairman of this Committee. He would like to term-limit himself out of being the chairman. If Mr. Moorlach intends to add the outside member, and he is not saying that person should move into the chairmanship, but he should be aware of what our duties and objectives are. He asked for any comments. There were none.

11. Public Comments

None

12. Schedule Next Meeting Date

The next regular meeting was scheduled to be held on December 1, 1999 in the Treasurer's Office, Conference Room A, 3:00 p.m.

13. Adjournment

Mr. Fauteux adjourned the meeting at 4:00 p.m.